

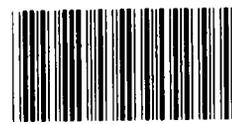
**GAO**

Report to the Chairman, Joint Economic  
Committee  
Congress of the United States

December 1986

# BUDGET ISSUES

## The President's Current Services Budget

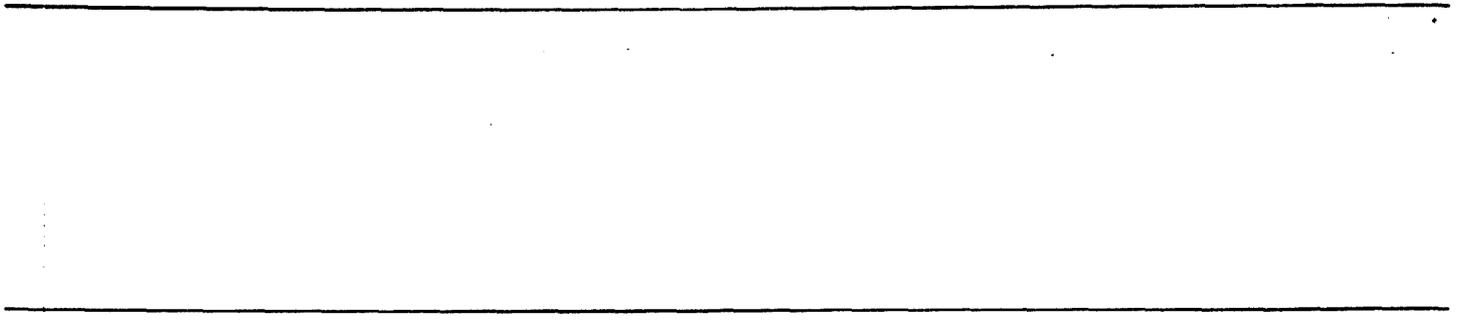


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December 2, 1986

The Honorable David R. Obey  
Chairman, Joint Economic Committee  
Congress of the United States

Dear Mr. Chairman:

In a letter dated May 8, 1985, you requested that we review the current services budget to determine if it complies with the intent of the Congressional Budget and Impoundment Control Act of 1974, as amended (Public Law 93-344) (the budget act). Your request arose from your concern that in recent years an increasing number of distortions have been introduced into the current services budget, especially in the defense area. Specifically, you requested that we review the procedures used to develop current services estimates, assess whether the procedures are in compliance with the intent of the budget act, and suggest ways to make the current services budget a more useful and objective budget policy aid.

The objectives of our review were to determine if procedures for developing current services estimates comply with the budget act and to determine how to improve the usefulness of current services estimates to the Congress. As agreed with your office, our review focused on budget authority estimates rather than outlay estimates. We made no attempt to identify the costs of preparing the current services budget. (See appendix III.)

We found that the Office of Management and Budget (OMB), in developing the current services budget, makes major exceptions to its general current services concept for certain agencies and programs. The exceptions define policy for such programs differently from OMB's general concept; that is, the exceptions permit new presidential or congressional initiatives that are not yet, and may never be, enacted into law to affect the estimates. However, because neither the budget act nor its legislative history defines or discusses the concept of policy, we concluded that OMB's actions were not inconsistent with the budget act.

OMB states that the guiding principle in establishing its general current services concept was to make the results useful to the Congress and the public. However, OMB's use of different policy definitions for different programs lessens the usefulness of the current services budget as a budget tool. It is not useful as a baseline for evaluating the fiscal effects

of policy changes proposed in the President's budget because these fiscal effects cannot be isolated from those of new initiatives. These new initiatives which have yet to be enacted into law are included in the current services budget due to OMB's use of major exceptions.

Congressional staff we contacted who are involved in the budget process do not regularly use OMB's current services budget. They find budget information prepared by the Congressional Budget Office (CBO) more useful.

OMB's guidance for implementing the budget act requires budget examiners to use their knowledge of specific programs and their judgment to develop current services estimates. This results in budget examiners using inconsistent estimating methods for the same types of accounts. The degree of judgment involved in making estimates and OMB's use of exceptions to its own guidelines can result in a current services budget developed to support the President's proposed policies rather than to highlight the fiscal effects of proposed policy changes. If the statutory definition of current services estimates were more detailed, OMB would have less discretion when developing its estimates.

## Budget Act Requirements

Section 1109 of Title 31, United States Code (the most recent codification of section 605 of the budget act) requires the President to submit a current services budget to the Congress showing the estimated outlays and proposed budget authority for the following fiscal year "if all programs and activities of the U.S. Government were carried on during that year at the same level as the current year without a change in policy. . ." OMB develops the current services budget, published as "Special Analysis A" in the Special Analyses, Budget of the United States Government, using the general concept that the estimates show the expected cost, in current dollars<sup>1</sup> of continuing ongoing federal programs without policy changes, that is, omitting all new initiatives, presidential or congressional, that are not yet law. Thus, the current services budget is supposed to provide a baseline for measuring the fiscal impact of policy changes proposed in the President's budget. The budget act as amended also requires the Joint Economic Committee to review and evaluate the current services budget by March 1 of each year.

<sup>1</sup>An item or service used in a program is priced in current dollars if the price contains all inflationary increases expected to occur in the program during the period of time in which the appropriation is spent.

As originally enacted, the budget act required the President to provide the Congress a current services budget early in the budget process—by November 10 of each year—in order to begin analysis and preparation for the following fiscal year’s budget formulation. However, the November 10 submission date was revised (originally by agreement between OMB and the pertinent congressional committees, and later by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177)) to allow, among other things, simultaneous submission of the President’s current services budget and his proposed budget so both could be based on the same economic assumptions.

OMB circular A-11, “Preparation and Submission of Budget Estimates,” provides guidance for developing current services estimates. They are currently developed at different levels of detail for defense and nondefense programs. For example, they are developed at the appropriation account level for nondefense programs and at the subfunction level for national defense.<sup>2</sup>

## Lack of Clear Statutory Definition

Neither the budget act nor its legislative history defines or explains the phrase “at the same level as the current year without a change in policy.” Therefore, the meaning of this phrase is subject to interpretation. The budget act and its legislative history do not specify what the policies underlying the previous fiscal year’s level of programs and activities are. For example, the policies could be reflected in a law or expressed by the President, the Congress, or an agency administrator.

The Balanced Budget and Emergency Deficit Control Act of 1985 (in its section 251(a)(6), description of the budget base<sup>3</sup>) provides an example of legislation in which the Congress specifies in detail the type and basis of budget information it needs. The budget base is to be calculated for the budget year on the basis of laws in effect at a specified point in time prior to the start of the budget year and is to be updated shortly after the start of the budget year. Detailed instructions specify which laws are to be used in calculating the base. For example, for all accounts subject to the annual control of the appropriations process, the budget base

<sup>2</sup>The national defense function is comprised of three subfunctions: Department of Defense-Military (with over 70 appropriation accounts), atomic-energy defense activities, and the defense-related activities of other agencies.

<sup>3</sup>The budget base is the level of projected spending and projected revenues which is used to determine the size of the estimated deficit excess and, thus, the amount by which spending must be reduced under the emergency deficit reduction procedures in the Balanced Budget and Emergency Deficit Control Act of 1985.

assumes appropriations equal to the prior year's appropriations unless the budget year's annual appropriations or continuing appropriations for the full year have been enacted. The amount of detail included in this legislation, in contrast to the 1974 budget act, ensures that both the Congress and the executive branch understand what the budget base represents. This was demonstrated by the minimal differences in the January 1985 budget base estimates prepared by OMB and CBO.

### Inconsistent Application of OMB's General Current Services Concept

Since the budget act does not define the phrase "without policy change," OMB specifies in "Special Analysis A" that its general current services concept is that "without policy change" means all new initiatives, presidential or congressional, that are not yet law are ignored. However, OMB does not consistently apply this general concept to all agencies and programs. For many programs and activities, OMB circular A-11 provides instructions for developing estimates that can be applied in various ways, depending on what seems reasonable for the account in the OMB budget examiner's judgment. This results in budget examiners using inconsistent estimating methods for the same types of accounts. Additionally, OMB's use of major exceptions to the concept, which are described each year in "Special Analysis A," introduces inconsistencies in the estimates by including pending proposals.

### Conflicting OMB Guidance Can Be Interpreted in Various Ways

OMB budget examiners' interpretations play important roles in developing estimates for accounts that regularly receive appropriations for fully funded capital projects (ones for which the budget authority for the total cost is appropriated at the projects' beginnings). For such accounts, budget examiners who review agency estimates of current services must choose between conflicting OMB guidance. For example, OMB's general approach is to exclude new initiatives from current services estimates. For accounts totally composed of fully funded projects, the exclusion of new initiatives would result in current services estimates of zero. However, circular A-11 also states that estimates shall be based on a constant level of activity. In the case of accounts regularly composed of fully funded capital projects, the estimates would then include new initiatives. Since OMB guidance does not specify how to make estimates for fully funded capital investment projects, budget examiners must choose which guidance makes the most sense for each particular account. As a result, they do not consistently use the same method for these types of accounts. The inclusion of a capital budget in the Budget of the United States Government might alleviate the present problems by clarifying

the distinction between capital and operating programs. We are conducting ongoing work in which we are examining the capital budgeting issue.

## Major Exceptions Resulted in Higher Current Services Estimates

Various major exceptions to OMB's general current services concept have been made since fiscal year 1984 for the Department of Energy's (DOE) atomic-energy defense activities, the National Aeronautics and Space Administration (NASA), the Veterans Administration (VA), and the Department of Defense-Military (DOD-M).<sup>4</sup> (See appendix I.) The exceptions permit the current services estimates for a particular program or agency to be based on proposals developed during various stages of the congressional or executive budget process rather than on the expected real dollar cost of simply continuing ongoing programs and excluding all new proposals not yet enacted. Using these major exceptions resulted in higher current services estimates than otherwise would have been made.

Recent DOD-M current services estimates are examples of a major exception to OMB's general current services concept and demonstrate how OMB can affect estimates by changing the current policy basis of the estimates. Beginning in fiscal year 1984, OMB defined DOD-M current services estimates as the DOD-M budget proposals existing at certain points in the executive or congressional budget process. These budget proposals reflected current policies of real growth;<sup>5</sup> thus, the current services estimates were based on real growth policies. OMB officials said using such an interpretation of current policy was appropriate because it has been the President's policy each year, with congressional support, to include real growth in the DOD-M budget. Prior to fiscal year 1984, DOD-M estimates were developed in line with OMB's general current services concept and did not include real growth.

How the President's budget proposals appear in comparison to current services estimates depends on how current policy is defined. Before fiscal year 1984, the President's budget proposals for DOD-M had been greater than current services estimates. In fiscal year 1984, when OMB changed the current policy definition used to develop DOD-M current services estimates, the President's budget proposal for DOD-M began to appear smaller than the current services level. Using the current services estimates resulting from the new policy definition as a baseline,

<sup>4</sup>DOD-M comprises approximately 97 percent of the national defense budget function.

<sup>5</sup>The year-to-year change in program levels which is not due to inflationary changes that have occurred or are forecast to occur.

the administration gave the impression it was proposing to cut the DOD-M budget. However, it was only cutting the rate of real growth from that included in the current services estimates.

We and Department of Defense (DOD) officials recalculated DOD-M current services estimates for fiscal years 1986 and 1987, respectively, using a no real growth policy. Using the recalculations as a baseline, the President's budget proposals appear as increases, rather than decreases, in budget authority. (See table 1.) The difference between the current services estimates with and without real growth is over \$29 billion in fiscal year 1986 alone.

**Table 1: Comparison of President's Budget Proposals and Current Services Budget Authority Estimates for DOD-M With and Without Real Growth**

Dollars in billions					
Fiscal year	President's budget proposal	GAO or DOD current services estimate with no real growth	OMB current services estimates (which include real growth)	Difference between the President's budget proposal and estimates	
				With no real growth	With real growth
1986	\$313.7	\$295.6	\$324.8	\$+18.1	\$-11.1
1987	311.6	292.8	314.7	+18.8	-3.1

## Congressional Staff Do Not Regularly Use Current Services Estimates

We attempted to identify potential users of current services estimates by contacting congressional staff on committees involved in the budget process. None of the 15 staff members we contacted<sup>6</sup> from Budget, Appropriations, Ways and Means, Rules, authorizing committees for Education and Labor and for Energy and Commerce use OMB's current services estimates on a regular basis. Some staff members were not aware of what the estimates represent. Those who knew about the estimates generally use them only when administration officials refer to them to support the President's budget proposals. Staff members generally agreed that OMB develops the current services estimates using data it considers useful for supporting the President's budget proposals. Many staff members do not find the current services budget very useful because OMB develops current services estimates for defense using a real growth policy, while the estimates for nondefense generally do not include real growth. Several staff members pointed out that this inconsistent treatment can cause unnecessary debate over estimating

<sup>6</sup>One of the 15 staff members we contacted supervises 7 other staff. The supervisor stated that neither he nor his staff use the current services budget.

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methods, thus obscuring the policy issues the estimates were intended to highlight.

CBO is also required to develop a current services-like estimate for measuring the effects of potential policy changes. CBO's estimates, called baseline budget projections, are published each February and cover the same 5-year period as OMB's current services budget. CBO has used various policy definitions to develop its baseline over the years, sometimes including real growth in national defense. However, CBO usually provides an additional baseline based on a no real growth defense policy. Most staff members contacted use CBO's baseline projections rather than OMB's. They said that CBO is more responsive to their needs and will develop alternative analyses to satisfy congressional information needs.

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## Conclusions

Because the meaning of the budget act regarding the policy basis of current services estimates is not defined or explained, OMB developed guidelines for making current services estimates. The degree of flexibility involved in making estimates under the OMB guidelines—particularly for capital investment projects—coupled with OMB's selective use of exceptions to its guidelines can result in a current services budget developed to support the President's proposed policies rather than to highlight the fiscal effect of proposed policy changes.

The current services budget is not regularly used as a budgetary tool by the congressional staff we contacted, most of whom use CBO's baseline projections instead. Additionally, its original purpose of providing early data to the Congress no longer exists. When the Congress addresses the current services budget, the result is often unnecessary debate about OMB's inconsistent policy definitions used to develop defense and nondefense estimates rather than about substantive issues.

Eliminating the legal requirement for the current services budget would help prevent such estimates from being used to support particular policies. Presently, the current services budget is open to different interpretations because of the lack of statutory guidance.

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## Matters for Congressional Consideration

On the basis of our review results, the Congress should consider eliminating the requirement that the President submit a current services budget.

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## Recommendation to the Congress

If the requirement for a current services budget is retained, we recommend that the Congress amend the budget act to specifically define the set of policies to be assumed in developing the current services estimates. While judgment is always required in making budget estimates, the use of a defined set of policies would ensure a common understanding between the Congress and OMB as to what the current services budget represents, making it a more useful budgetary tool.

For the current services budget to best serve the purpose of providing a baseline for highlighting the fiscal effects of policy changes proposed in the President's budget, the policy used to develop it should be the most current policy reflected in law. Current policy needs to be specifically defined at a sufficient level of detail to ensure that OMB provides the type of information that would be useful to the Congress as a baseline. The definition of the budget base in section 251(a)(6) of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) is an example of the detail required in such a definition.

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## Agency Comments and Our Evaluation

On September 5, 1986, we met with DOD officials to discuss their official comments on a draft of this report. The officials told us that DOD fully agreed with our conclusions. In response to DOD suggestions, we made changes of a technical nature which do not affect the conclusions presented in our report.

CBO generally agreed with our analysis. CBO emphasized that the role of judgment cannot be eliminated in making budget projections. We agree with this and changed the report to appropriately emphasize the unavoidable role of judgment. (See appendix IV.)

In commenting on a draft of this report (see appendix V) OMB states that the role of the OMB budget examiner is exaggerated throughout the report. However, we believe that examiners play important roles in developing current services estimates. Agency estimates are revised on the basis of budget examiners' judgment. We obtained information regarding the details and judgment involved in developing the current services estimates directly from various budget examiners.

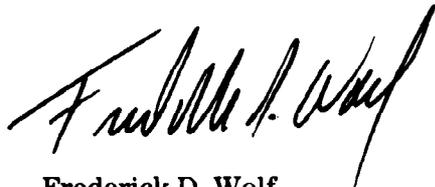
OMB believes that our conclusions about congressional staff use of the current services budget may not represent actual use of the estimates. OMB questioned the sample size of our survey, the selection method for the staff members interviewed, and the consistency and lack of bias in the interview process itself. We made changes to the report to further

clarify the sample size. Congressional staff we interviewed were chosen, as stated in the report, by our attempting to identify potential users of the current services budget by contacting staff on committees involved in the budget process. Our objective was to determine how the estimates could be made more useful. Although we recognize a statistically valid sample was not used, we consider it important that none of the congressional staff we spoke with regularly use the current services budget. We did not attempt to project this lack of use on the part of some staff to the Congress and all congressional staff. If the Congress considers eliminating the requirement for a current services budget, actual users can make their views known at that time.

OMB also suggested some technical changes, which we made where appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send the report to the directors of the Office of Management and Budget and the Congressional Budget Office, the Secretary of Defense, the administrators of the National Aeronautics and Space Administration and the Veterans Administration, and other interested parties. Copies will also be made available to others on request.

Sincerely yours,



Frederick D. Wolf  
Director

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**Abbreviations**

CBO	Congressional Budget Office
DOD	Department of Defense
DOD-M	Department of Defense-Military
DOE	Department of Energy
GAO	General Accounting Office
GNP	gross national product
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
VA	Veterans Administration

# Current Services Estimates

## Various OMB Definitions Are Used Because Current Services Levels Are Undefined in Law

OMB has used various definitions of current policy and policy changes over the years to develop current services estimates. This has occurred because a key phrase in the budget act is undefined in the law or the legislative history. The budget act leaves the phrase “at the same level as the current year without a change in policy” open to interpretation. OMB has interpreted the budget act’s broad definition of current services in many different ways. Our analysis shows that, in some cases, it has defined current services levels to represent current appropriations levels, while in other cases it has said that current services levels represent a policy unrelated to current appropriations.

## Definitions Linked to Current Appropriations

OMB has defined the current services level as the current year appropriation or the current year appropriation in current dollars for certain types of accounts. For example, OMB uses the current appropriation level for payroll for current services estimates at the account level and the current appropriation in current dollars for grants. Inflation adjustments for payroll costs are included in the allowances function in total for civilian agencies.

## Definitions Unrelated to Current Appropriations

Many definitions of current services levels unrelated to current appropriations are also used. OMB uses these definitions when it believes that maintaining the current level of services might require a change from the current-year appropriation level. Some examples follow.

For nondiscretionary programs such as entitlements, OMB defines the current services level as the level required to fulfill legal requirements. With this definition of current services, policy is found in substantive law.

The current services level for incrementally funded major projects—those for which budgetary resources provided in a given fiscal year cover only a portion of the funding needed to complete the project—has been defined by OMB as the level needed to continue funding according to schedule until completion. If the Congress appropriates funds to begin a project, then current policy is assumed to be the appropriation of additional funds in the future to complete the project.

OMB has also defined the current services level as the level required to implement a policy, such as to ensure adequate national defense. The policy, which has not been enacted into law, could be set by the President, the Congress, an agency administrator, or other officials. For

example, OMB used the administration's real growth policy to develop DOD-M estimates in fiscal years 1984 through 1986. Other policy definitions could be congressional policy, which is the basis of the fiscal year 1987 national defense estimates, or a no-growth policy.

Using goals as a definition of the current services level departs from the basic circular A-11 definition—OMB's guidance for implementing the budget act requirements—which specifies that the phrase "without policy changes" means that new legislative or executive branch proposals not enacted into law are to be ignored for current services budget purposes. However, defining the current services level as the level required to achieve a goal is not inconsistent with the budget act because the act does not define whose policy, or what policy, is not to be changed.

## OMB Guidance for Estimating Current Services Can Be Interpreted in Various Ways

OMB provides guidance to agency and OMB budget examiners for making current services estimates. In some cases, the guidance can be interpreted in various ways. We found that OMB's current services estimating approaches

- may be inconsistent over time because of the amount of judgment involved,
- are not well-defined for federal investment-type projects, and
- allow for major exceptions which have increased current services estimates.

OMB circular A-11 includes a brief set of instructions for developing current services estimates. As a general guideline, the circular states:

"Current services estimates...should reflect anticipated costs of continuing ongoing Federal programs and activities at the current year current services base levels without policy changes, i.e., excluding all pending new legislative and administrative proposals, presidential and congressional." [emphasis added]

Current services estimates are prepared for the budget year and the 4 years following the budget year. An agency's appropriation for the current year—the year immediately preceding the budget year—with some possible adjustments is considered the base-year level for current services estimates. The estimates generally reflect the expected cost of continuing ongoing federal programs at base-year levels in real terms (adjusted for inflation). Each agency is required to submit current services estimates to OMB after the agency's appropriation for the base year

is enacted into law. OMB budget examiners review the agencies' estimates, making revisions if they disagree with the agencies' methods or assumptions.

Although general guidance in circular A-11 refers to base-year levels, its more specific instructions do not require that current services estimates<sup>7</sup> for all programs and activities be derived directly from the base-year figures. For many programs and activities, the circular does not specify a method for calculating current services estimates but provides instructions that can be applied in various ways. According to the OMB official who reviews the current services budget, the instructions in A-11 were written broadly to apply to the over 1100 budget accounts in the federal government and to allow flexibility for dealing with unusual accounts.

In many cases, current services estimates are based on a detailed analysis of the funding needs of the various projects and activities financed by the account. When reviewing and revising agency estimates, OMB budget examiners who work on individual agency budgets select what they consider to be the appropriate method for estimating current services, depending on the particular characteristics of the program or account. Factors such as the legal requirements of the program or activity, whether the activity or program is incrementally or fully funded, and the OMB budget examiner's interpretation of the congressional intent of the program can affect which method is used to develop current services estimates.

While estimating approaches based on judgment may result in more realistic estimates of future funding requirements under current policy than if a standard mechanical approach were required, their credibility and consistency over time are highly dependent on each budget examiner's knowledge of specific programs. Furthermore, when budget examiners leave OMB, their replacements may use different methods to develop estimates, possibly leading to further inconsistencies in estimates over time.

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### Estimating Current Services for Nondiscretionary Programs

According to OMB officials, selecting the method for estimating current services for nondiscretionary programs, such as entitlement programs, requires little judgment because the estimates are based on legal requirements. For example, an OMB budget examiner for the Social Security

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<sup>7</sup>The focus of our review is on budget authority estimates rather than outlay estimates. Unless otherwise specified, all references to current services estimates relate to budget authority.

Administration stated that current services estimates for both budget authority and outlays from the Old-Age and Survivors Insurance trust fund are based on the requirements of the program, which are specifically laid out in law. He stated that estimating current services for the fund is conceptually straightforward but technically very complicated. The Social Security Administration's actuarial and demographic data and OMB's economic assumptions are factors in the current services estimates.

Circular A-11 does not provide specific instructions on the method to use in making current services estimates for entitlement programs. The OMB official who reviews the current services budget stated that such instructions were not included because everyone understands how to estimate current services for these programs. Current services levels of activity for entitlement programs are determined by the requirements of the law, which would have to be changed (a change in policy) to substantially affect the current services estimates.

### Estimating Current Services for Federal Investment-Type Projects

OMB budget examiners use various methods to estimate current services for federal investment-type projects and accounts, such as research and development, major construction, and procurement. Although circular A-11 and "Special Analysis A" contain several statements about estimating current services for capital projects, the statements can be interpreted in various ways and leave key phrases undefined. As a result, budget examiners select particular estimating methods based on factors such as historical trends and congressional intent, which they believe should be considered in making current services estimates. Methods used to estimate current services for incrementally funded capital projects can differ from those for fully funded projects, and there is no consistently applied method for either. The inclusion of a capital budget in the Budget of the United States Government might alleviate the present problems by clarifying the distinction between capital and operating programs. We have ongoing work in which we are examining the capital budgeting issue.

### Fully Funded Projects

Developing current services estimates for fully funded capital projects presents a problem. OMB guidance does not specifically address how to develop estimates for such projects. OMB's general concept calls for excluding all new initiatives, and other OMB guidance calls for a constant level of activity. However, these two guidelines are mutually exclusive

for fully funded projects, as discussed next. For the most part, the individual budget examiner decides what guidance to follow and how to interpret it.

Current services levels for fully funded projects, such as major construction and most defense weapon systems, are not specifically defined in circular A-11. Making estimates for such projects is complicated by the OMB requirement that current services estimates should not include funds for new initiatives.

For example, the National Aeronautics and Space Administration (NASA) construction and the Smithsonian Institution construction accounts include some fully funded projects. Therefore, each year the appropriations for these accounts include funds for different projects than were funded in the preceding year. To use the preceding year's appropriation plus inflation as the current services estimate would result in including new projects, or initiatives, in the estimates. This appears contrary to OMB's definition of current services estimates which specifies that new initiatives not yet law are ignored. However, if no new projects are included in current services estimates, the estimates would be zero for accounts completely composed of fully funded projects. To avoid this, budget examiners can use other OMB guidance calling for a constant level of activity if, in their judgment, this estimating method is more realistic.

For example, the OMB staff responsible for NASA and the Smithsonian Institution develop the current services estimates for the agencies' construction accounts differently because the historical trends for funding the two accounts are different. Each year the current services estimate for NASA construction is about \$150 million because every year the appropriation for the account is around this level. According to OMB staff, this indicates that the Congress intends to fund an ongoing level of activity for this account. While estimating current services this way produces realistic estimates and complies with OMB guidance calling for a constant level of activity, it contradicts OMB guidance that no new initiatives be included in the estimates. On the other hand, OMB staff stated that the current services estimate for Smithsonian construction is always zero because the account only receives an appropriation for a new project every few years. Therefore, congressional intent does not imply a constant level of activity for this program. In this instance, compliance with the OMB guidance regarding no new initiatives seems reasonable.

The problem of defining the current services level is avoided for estimating fully funded weapon system programs since the national defense function, as a major exception to circular A-11, uses the mid-session review<sup>8</sup> or congressional budget resolution<sup>9</sup> proposals (see appendix II) as current services estimates. However, use of this exception for defense causes other problems which are discussed later on page 24.

#### Incrementally Funded Projects

OMB budget examiners use different approaches to estimate current services for incrementally funded projects—ones in which each year's appropriation covers only a portion of the total needed to complete the project. Circular A-11 provides that current services estimates for major projects should be based on an approved construction, development, and/or procurement schedule; however, it does not provide guidance on when a schedule is to be considered approved. An initial appropriation to begin construction can be interpreted as approval of a project and, therefore, approval of the planned funding schedule. However, since many projects go through an initial research or preliminary design phase which may involve large funding commitments, the question arises as to whether appropriations for early phases should be considered approval of the entire project.

Using an approved construction, development, or procurement schedule to develop current services estimates results in estimates that are linked to the funding needs of actual projects. The estimates will be allowed to increase substantially over the base-year level during costly periods of construction, and they may drop below the base-year level when the project is nearing completion. However, using an approved funding schedule to make estimates requires budget examiners to make interpretations of when approval has been given.

For example, OMB staff responsible for the Department of Energy (DOE) stated that funds for the construction of a major DOE project will not be included in current services estimates unless the project has received an appropriation for the first year of construction. The reasoning is that sometimes DOE projects are not continued beyond the research phase.

<sup>8</sup>The mid-session review is a supplemental summary of the budget for the ensuing fiscal year transmitted to the Congress by the President on or before July 15 of each year, pursuant to the Budget and Accounting Act of 1921, as amended. It reflects all substantial alterations in or reappraisals of the estimates of expenditures and receipts originally submitted in the President's budget.

<sup>9</sup>A resolution passed by both houses of the Congress, but not requiring the signature of the President, setting forth, reaffirming, or revising the congressional budget for the United States government for a fiscal year.

OMB staff consider an appropriation for the first year of construction to represent congressional approval for the project, and after that point will include the project's funding profile in current services estimates.

In contrast, in one case OMB staff responsible for NASA rely more on interpretations of legislative history and current congressional intent to determine if a project has been approved. The fiscal year 1987 current services estimates for NASA's research and development account increased 18 percent over the base-year amount. One reason for the large percentage increase was that \$270 million in development funds for the space station were included in the fiscal year 1987 current services estimates, whereas no development funds were in the base-year figure. For the space station, the development phase includes construction. Although the Congress only appropriated funds for the definition phase of the space station—the phase used to design the project to meet its mission goals prior to the beginning of project development—OMB staff considered the entire project to be approved and, in effect, to have an approved construction schedule.

OMB staff provided several reasons why development funds for the space station were included in the current services estimates. First, the Congress received estimates for the complete cost of developing the space station and appropriated funds for the definition phase. Second, OMB staff do not know of any instances in which the Congress did not provide development funds for NASA programs that completed the definition phase, and congressional conference reports refer to an operational space station in the 1990's. Finally, the President has stated his strong support for the space station. In most cases, however, OMB staff stated that they do not include funds for construction of a major project in current services estimates unless the project has received funds for development or construction in the base year.

OMB staff told us that agency officials who develop current services estimates for submittal to OMB have a tendency to try to increase the estimates to support the agency's budget request. One way they do this is by including funds for development or construction of projects that have only been approved for the initial definition or research phase. OMB staff responsible for NASA explained that if the Congress only appropriated funds for the definition phase of a project and has not been informed of the projected cost or made any appropriations to proceed with development, then the project should not be considered approved by the Congress and development funds should not be included in the current services estimates.

## Major Exceptions to OMB's Current Services Concept

Each year the Director of the Office of Management and Budget determines which major exceptions will be used to make current services estimates. Major exceptions, described in "Special Analysis A," are specific guidelines used to arrive at the final current services estimates. Most major exceptions have been used for several years and provide technical explanations of how estimates for items such as interest on the public debt, trust funds, entitlement programs, and offsetting receipts are calculated. Many of these major exceptions cover items that are not specifically addressed in the current services instructions of circular A-11 and, therefore, can be considered supplemental explanations of how current services estimates are made.

A few major exceptions, which apply to particular agencies and programs, are exemptions from, rather than supplements to, the current services guidelines in circular A-11. This is not inconsistent with the budget act because current policy is not defined in the act or its legislative history. However, the use of these types of major exceptions to selectively exempt programs and accounts from complying with circular A-11 guidelines introduces inconsistencies to the current services budget. OMB makes these types of major exceptions for both defense and nondefense programs. The major exceptions for defense are discussed in the next section.

The major exceptions exempting agencies from general current services guidelines often have the effect of increasing current services estimates over what they would have been without the exception. For example, in fiscal year 1986, OMB made a major exception for NASA and the DOE atomic-energy defense programs by defining current service levels as the budget proposals contained in the administration's mid-session review of the 1985 budget. According to OMB officials, use of this major exception raised the current services estimates for NASA and DOE atomic-energy defense activities above what they would have been if the major exception had not been used. OMB staff responsible for NASA stated that the policy definition in the major exception allowed NASA's current services estimates to include funds for new projects not yet approved by the Congress. The staff said that a traditional current services budget would not include such new starts or new initiatives.

In fiscal year 1986, OMB made the current services estimate for the Veterans Administration's (VA) major construction account a major exception to its general current services approach by making the current services estimate equal to the agency's budget request provided to OMB. The agency budget request was not in fact approved by OMB and was

subsequently lowered by OMB when included in the President's budget proposals. It was, however, the basis of the current services estimate, which reflects the agency's request to OMB for the account to include real growth to finance new projects. According to an OMB document, the current services estimate for the VA major construction account assumed "an increasing baseline that will fund maintenance and replacement, modernization, or upgrading each year of a number of large hospital projects"—the agency's desired real growth policy.

The fiscal year 1986 VA major construction account's current services estimate does not conform to circular A-11. If it had not been made an exception, OMB staff would have had to choose between the conflicting OMB guidance that could be applied to fully funded capital projects—maintenance of a constant level of activity or exclusion of all new initiatives.

Using the VA's budget request to OMB as the agency's current services estimate, as specified in the major exception, increased the estimate for the major construction account substantially over estimates we developed according to either of the OMB guidelines. If this account were estimated as the base-year appropriation adjusted for inflation, the resulting estimate of \$595.5 million would be approximately 38 percent lower than OMB's estimate of \$954.8 million. Assuming the account is totally composed of fully funded projects and new initiatives are excluded from the estimate, the current services estimate would be zero.

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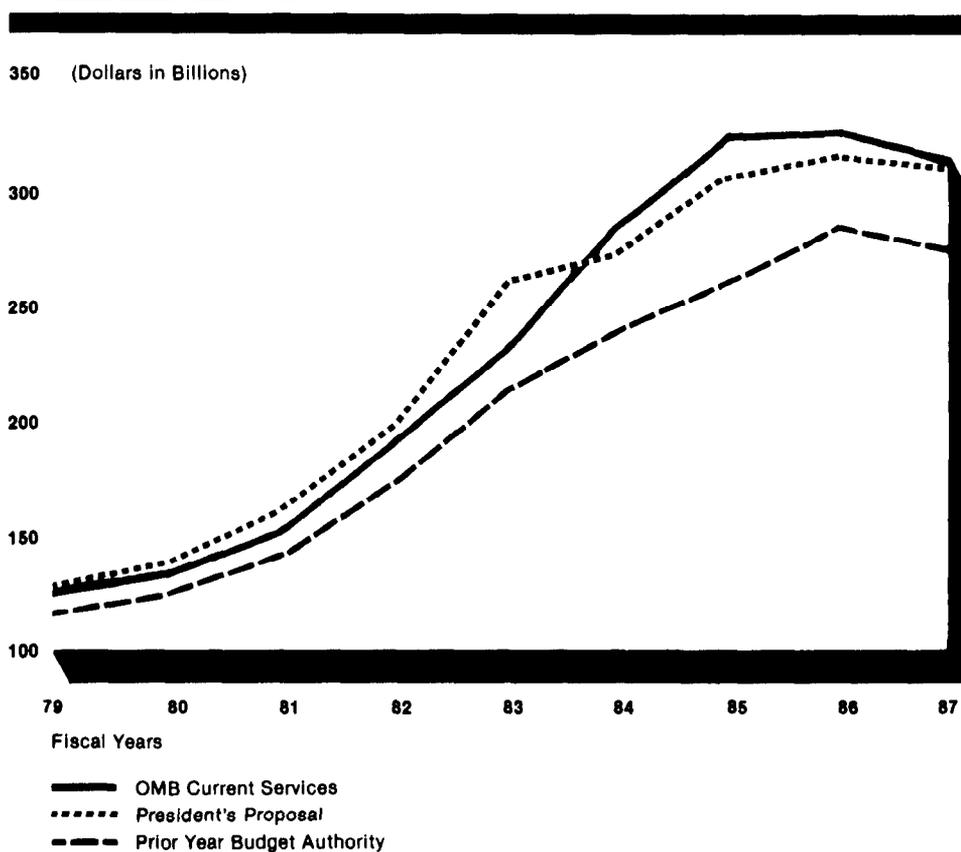
## Estimating Current Services for Department of Defense- Military

Over the years OMB has used different methods to develop current services estimates for DOD-M. According to OMB officials, for fiscal years 1979 through 1983, OMB generally developed DOD-M current services estimates by adjusting the base-year level for inflation and did not include real growth in the estimates. This was consistent with OMB's general current services concept used for most agencies and programs. Since fiscal year 1984, OMB has made the DOD-M current services estimates major exceptions to its general concept by defining the current policy used for the estimates as that reflected in budget proposals existing at certain points in the executive or congressional budget process. Use of these policies resulted in the inclusion of real growth in DOD-M current services estimates. (See appendix II for the specific methods used during these years.) According to OMB officials, including real growth in defense current services estimates is appropriate because it has been the administration's current policy each year, with congressional support, to provide real growth for national defense activities.

The relationship between the President's budget proposals, which are the end result of the executive budget process, and the DOD-M current services estimates changed in fiscal year 1984 when DOD-M was made a major exception to OMB's general concept. Prior to fiscal year 1984, the President's budget proposals for DOD-M appeared as increases to current services estimates. However, in fiscal year 1984, when OMB began including real growth in current services estimates, the President's budget proposal began to appear as a reduction from the current services budget. Therefore, using the current services budget as a baseline, the administration gave the impression it was proposing to cut the DOD-M budget.

Figure I.1 shows how the relationship between current services estimates and the President's budget proposals for DOD-M has changed since fiscal year 1984. Prior-year budget authority is shown because it is the base year for current services estimates. Before fiscal year 1984, the base-year budget authority, adjusted for inflation, was the DOD-M current services estimate.

Figure I.1: Department of Defense-  
Military Budget Authority, Fiscal Years  
1979 Through 1987



Different Current Services  
Level Definitions Greatly  
Affect DOD-M Current  
Services Estimates

Quite a different relationship between the President's budget proposal and current services estimates emerges if a no real growth defense policy is the basis of the estimates. Calculating fiscal years 1986 and 1987 current services estimates without including real growth results in estimates which show the President's budget proposal is larger than current services. Such recalculations are described in the next sections and are followed by a discussion of their relationship to the President's budget proposals.

February 1985 Estimates From the  
Fiscal Year 1986 "Special Analysis  
A"

The fiscal year 1986 "Special Analysis A" defined the current services level for DOD-M as the level included as administration policy in the mid-session review of the 1985 budget. Administration policy was real growth for DOD-M, so the fiscal year 1986 current services estimate for DOD-M included real growth.

To show the difference between this current services estimate and one developed without real growth, we adjusted the DOD-M base-year appropriation for inflation using the economic assumptions in the President's fiscal year 1986 budget. Table I.1 shows OMB's current services estimates and our recalculations. The table illustrates that OMB's current services estimates are higher than those developed by adjusting the base-year appropriation for inflation.

**Table I.1: February 1985 Current Services Budget Authority Estimates and Our Recalculations for Department of Defense-Military**

Dollars in billions		
Fiscal year	OMB current services estimates based on mid-session review of the 1985 budget <sup>a</sup>	Base year's appropriation adjusted for inflation
1986	\$324.8	\$295.6
1987	362.6	328.7
1988	411.5	332.8
1989	450.5	337.0

<sup>a</sup>Includes both an adjustment for inflation and an amount for real growth.

February 1986 Estimates From Fiscal Year 1987 "Special Analysis A"

OMB's fiscal year 1987 current services estimates for DOD-M are higher than the current services estimates developed by DOD officials. OMB estimated fiscal year 1987 current services for DOD-M using the policy reflected in the 1986 congressional budget resolution. The resolution calls for a 3-percent real growth in budget authority for DOD-M. During DOD's budget process, DOD officials developed two estimates of what current services would have been without real growth by adjusting both the pre- and post-sequestration<sup>10</sup> base-year appropriations using the economic assumptions in the President's fiscal year 1987 budget. Table I.2 shows the OMB current services estimates for DOD-M and the estimates developed by DOD.

<sup>10</sup>Sequestration is the permanent cancellation of part of a program, project, or activity's budget authority due to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

**Table I.2: February 1986 Current Services Budget Authority Estimates and DOD's No Real Growth Estimates for Department of Defense-Military**

Fiscal year	OMB current services estimates based on the FY 1986 congressional budget resolution <sup>a</sup>	Base year's appropriation adjusted for inflation	
		Without the effects of sequestration	With the effects of sequestration
		1987	\$314.7
1988	337.5	315.6	303.9
1989	361.5	327.0	314.9
1990	386.8	337.9	325.5
1991	412.6	348.2	335.5

<sup>a</sup>Fiscal years 1987 and 1988 estimates are the same as those of the 1986 congressional budget resolution. For fiscal years 1989 through 1991, the estimates reflect the budget resolution policy of 3-percent annual real growth.

**Relationship of Different Baselines to the President's Budget Proposals**

As previously mentioned, the current services budget is supposed to provide a baseline for measuring the fiscal impact of policy changes in the President's budget proposals. Whether the fiscal impact of proposed policy changes appears to be an increase or decrease to the baseline depends on how the current services level is defined. If the fiscal years 1986 and 1987 current services levels are defined as the base-year appropriations plus inflation with no real growth, the President's budget proposals for those years would appear as increases above current services. However, using OMB's definitions of current services as the levels included in executive or congressional budget proposals, the President's budget proposals for fiscal years 1986 and 1987 appear as cuts to current services. The difference between the current services estimates with and without real growth is over \$29 billion in fiscal year 1986 alone.

**Table I.3: Comparison of President's Budget Proposals and Current Services Budget Authority Estimates for DOD-M With and Without Real Growth**

Fiscal year	President's budget proposal	GAO or DOD current services estimate with no real growth	OMB current services estimates (which include real growth)	Difference between the President's budget proposal and estimates	
				With no real growth	With real growth
				1986	\$313.7
1987	311.6	292.8	314.7	+18.8	-3.1

# Department of Defense-Military Current Services: OMB's Estimating Methods—Fiscal Years 1979 Through 1987

**Fiscal Year 1979 Through 1983 "Special Analysis A"**

Current services estimates were generally based on the previous year's appropriation level adjusted for inflation only. The estimates did not include real growth above the previous year's appropriation; that is, increases in the volume of goods purchased or the level of services provided were not included.

**Fiscal Year 1984 "Special Analysis A"**

The current services estimates were amounts proposed for fiscal year 1984 in the administration's fiscal year 1983 budget. These amounts included both an adjustment for inflation and an amount for real growth.

**Fiscal Year 1985 "Special Analysis A"**

The current services estimates were from the administration's July 1983 mid-session review of the 1984 budget. For DOD-M, the mid-session review estimates were the amounts proposed by the administration for fiscal year 1985 in its fiscal year 1984 budget submission to the Congress. They included both an adjustment for inflation and an amount for real growth. Figure II.1 shows the events to develop the current services estimates for the fiscal year 1985 budget.

**Figure II.1: Events to Develop the FY 1985 Through FY 1988 Current Services Estimates Included in the President's FY 1985 Budget for DOD-Military**

Budget Authority in Billions			
	Event #1	Event #2	Event #3
Fiscal Year	FY85 Budget Proposals Dated January 1983	July 1983 Mid-session Review of the Budget	FY85 Current Services Estimates Dated February 1984
1985	\$321.6	\$321.4	\$321.3
1986	\$356.4	\$356.4	\$356.2
1987	\$388.3	\$388.3	\$388.3
1988	\$424.3	\$424.3	\$424.5

Note: According to OMB, the relatively small differences between numbers are due to a shift to an accrual basis of accounting for military retired pay, beginning in 1985.

Fiscal Year 1986 "Special  
 Analysis A"

The current services estimates were from the administration's August 1984 mid-session review of the 1985 budget. For DOD-M, the mid-session review estimates were the amounts proposed by the administration for fiscal year 1986 in its fiscal year 1985 budget, adjusted by the "Rose Garden Downpayment Plan."<sup>11</sup> These amounts included both an adjustment for inflation and an amount for real growth. Figure II.2 shows the events to develop the current services estimates for the fiscal year 1986 budget.

Figure II.2: Events to Develop the FY 1986 Through FY 1989 Current Services Estimates Included in the President's FY 1986 Budget for DOD-Military

Budget Authority in Billions				
	Event #1	Event #2	Event #3	Event #4
Fiscal Year	FY85 Budget Proposals Dated February 1984	July 1984 Rose Garden Downpayment Plan <sup>a</sup>	August 1984 Midsession Review of the Budget	FY86 Current Services Estimates Dated February 1985
1986	\$349.6	→ President Revises FY86 Proposals	\$324.8	→ \$324.8
1987	\$379.2	→ President Revises FY87 Proposals	\$362.6	→ \$362.6
1988	\$411.5	→ No Effect	\$411.5	→ \$411.5
1989	\$446.1	→ No Effect	\$446.1	→ \$450.5 <sup>b</sup>

<sup>a</sup> The Rose Garden Downpayment Plan directly affected FY86 and FY87.

<sup>b</sup> FY89 current services adjusted upward (from FY85 budget proposals and August 1984 midsession review by the President to reflect current defense policy).

Fiscal Year 1987 "Special  
 Analysis A"

The current services estimates reflect the fiscal year 1986 congressional budget resolution policy. The fiscal years 1987 and 1988 current services estimates are the same as those of the budget resolution. For fiscal years 1989 through 1991, the current services estimates reflect the fiscal year 1986 congressional budget resolution policy of 3-percent annual real growth in budget authority. The current services estimates, therefore, include amounts which are sufficient to cover both inflation and real growth.

<sup>11</sup>The Rose Garden Downpayment Plan is a March 1984 deficit reduction agreement between the President and Republican Senate leaders to increase taxes and reduce the President's proposed level of military and domestic spending.

# Objectives, Scope, and Methodology

The objectives of our review were to determine if procedures for developing current services estimates comply with the budget act and to determine how to improve the usefulness of current services estimates to the Congress. As agreed with the requester's staff, our review focuses on budget authority estimates rather than outlay estimates. We made no attempt to identify the costs of preparing the current services budget.

We performed our review at OMB, which develops the current services budget, and at DOD, NASA, and VA, all in Washington, D.C. We included DOD because of the requester's specific concerns regarding defense estimates, and NASA and VA because fiscal year 1986 estimates for some of their programs were developed as exceptions to general OMB current services guidelines.

At OMB, we interviewed officials responsible for final review of the current services budget, as well as officials responsible for developing and reviewing agencies' current services estimates. At DOD, NASA, and VA, we met with budget officials and discussed each agency's role in developing estimates. Where possible, we obtained documentation indicating the source and reasoning behind specific estimates.

We interviewed CBO officials involved in developing baseline budget estimates and congressional staff of committees involved in the budget process regarding their use of the current services budget. We did not use a statistically valid sample, nor did we attempt to project the results of our interviews with some congressional staff to all congressional staff or to members of the Congress.

Information analyzed in this review was obtained through interviews and documents provided by responsible agency officials. Data, which were used in our recalculations of defense estimates showing the effect of using different policy definitions on current services estimates, were obtained from senior budget managers at DOD. The recalculations were made using a data base we constructed from defense publications (annual editions of the National Defense Budget Estimates volume published by the Assistant Secretary of Defense, Comptroller) and unpublished data furnished by DOD officials. We validated the calculations resulting from the data base by comparing them to similar calculations made by DOD officials.

We performed our review between October 1985 and February 1986 and in accordance with generally accepted government auditing standards.

# Comments From the Congressional Budget Office

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**CONGRESSIONAL BUDGET OFFICE  
U.S. CONGRESS  
WASHINGTON, D.C. 20515**

**Rudolph G. Penner  
Director**

August 20, 1986

Mr. Frederick D. Wolf, Director  
Accounting and Financial Management  
Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

CBO appreciates the opportunity to comment on your review of the President's current services budget. We generally agree with your analysis, which could be elaborated in a couple of places.

First, the report cites the definition of the budget base in the Balanced Budget and Emergency Deficit Control Act as an example of legislation in which the Congress specifies in detail the type and basis of budget information it needs. The report might also mention the proposed specification for baseline budget projections prepared by the Task Force on the Budget Process of the House Committee on Rules. This specification was included in Section 221 of the House-passed version of the Balanced Budget Act, although it was not in the enacted version.

Second, even detailed statutory guidance cannot eliminate the role of judgment in making budget projections. Despite the language of the Balanced Budget Act, for example, two major conceptual differences arose between CBO and the Office of Management and Budget in preparing our August 20 sequestration report. Appendix A to CBO's annual report, The Economic and Budget Outlook: Fiscal Years 1987-1991, lists a host of other assumptions that must be made in the course of preparing multi-year budget projections.

Third, because judgment will always play a role in budget projections, it is important that those who prepare the projections consult with and be sensitive to the needs of those who use them. CBO has always attempted to do so, and we are pleased that your report recognizes our efforts.

Sincerely,

Rudolph G. Penner

See comment 1.

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The following are GAO's comments on the Congressional Budget Office's letter dated August 20, 1986.

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**GAO Comment**

1. Report changed and discussed in agency comments section on page 8.

# Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

September 5, 1986

Mr. Frederick D. Wolf  
Director  
Accounting and Financial Management Division  
General Accounting Office  
Washington, D.C. 20548

Dear Fred:

This letter is in response to your request for comments on your draft, "The President's Current Services Budget." We understand that your report was drafted in response to a request that Congressman Obey made to your office nearly 16 months ago.

It might be useful to share with you some background on the early evolution of the current services concept at OMB. It was clear from the way the section of the Congressional Budget Act defining current services was drafted that the authors had in mind entitlement programs. You will recall that at the time there was considerable concern over the growth of these programs and the difficulty of limiting them through the normal appropriations process. The draftors seemed to be particularly concerned that the budget-year current services projections reflect the natural growth in these programs due to inflation and changes in the size of the eligible population. However, it was much less clear what the draftors had in mind when it came to discretionary programs that are normally controlled through annual appropriations. Budget technicians immediately encountered difficulties in interpreting what a "current level of services" meant for many of these programs. For example, if an agency built the foundation for a building or an irrigation project in a base year, did a current level of services imply rebuilding the same structure, or did it imply moving to the next natural stage of construction? In addition, it soon became obvious that literally measuring a current level of services for many discretionary programs would be extremely burdensome, conceptually meaningless, or both. For example, general revenue sharing went to communities throughout the United States and was available for use for a wide variety of purposes. Measuring the actual level of services provided by general revenue sharing funds and projecting their future costs seemed to be a monumentally difficult task.

OMB shared these and other concerns with congressional staff members before developing formal instructions to the agencies on how to make current services estimates. A meeting on this subject took place with members of the Budget Committees, Appropriations Committees, the Joint Economic Committee, the Congressional Budget Office, GAO, and others. At that time OMB proposed that for annually funded discretionary programs, the current services projection should be defined in terms of the resources provided by law in the base year. Initially, the projection was calculated in nominal terms -- that is, without any adjustment for inflation. Later, OMB included inflation adjustments in both its current services and policy budget projections. It probably would be

an understatement that there was complete unanimity on the approach proposed by OMB, but there was a general consensus that this represented a practical solution to a difficult conceptual problem.

See comment 1.

The point of reviewing this early history is to make clear that OMB did not operate in a vacuum but, rather, initiated a dialogue with congressional staff on some of the technical problems involved.

One reason for this consultation was that, as your report points out, the guidance contained in the Congressional Budget Act on current services is very limited. OMB has attempted to provide more detailed guidance to the agencies consistent with the law and feasible to carry out, with the hope that it will also lead to a useful database. Your report again correctly states that judgment is necessary to apply the OMB guidance. The use of judgment is inevitable in attempting to apply general guidance to hundreds of accounts in the budget. Even when guidance is available in great detail, such as for the Gramm-Rudman baseline, there have still been legitimate interpretation differences between OMB, CBO, and GAO. In addition, removal of all judgment can lead to impractical and unintended effects. For example, if an account received no budget authority in the current year because its current activity was funded from prior balances, it would also be unfunded in the budget year under the Gramm-Rudman definitions. If the purpose of the baseline is to show a continuous level of service, this estimate would be misleading.

See comment 2.

Turning to a more specific issue, it seems to me that the role of the OMB budget examiner in developing current services estimates is exaggerated throughout the report. The agencies prepare the current services estimates based on OMB guidance. OMB staff does review the agencies' work to see that it is in compliance with the guidance. When judgment is involved or the guidance appears to be violated, examiners may work with agency staff and other OMB officials in developing procedures using pertinent available congressional documents. In general, we suggest that references to specific examiners be dropped.

See comment 3.

In particular, the discussion of the current services estimates for the space station is not an accurate representation of the development of the data as provided by OMB staff. Enclosed is a copy of the pages pertaining to this subject with suggested changes marked. The funding assumed for the space station was based on Circular A-11 guidance related to major projects with programmed development schedules. The initial funding for the space station in 1985 was \$150 million. This amount was the first increment for the definition phase leading to the start of hardware development in 1987 and planned operations in the early 1990s consistent with the national space policy. Funding for planned stages through 1991 is included in the current services estimates that were submitted with the 1986 and 1987 budgets. The current services estimates made in January 1986 include \$195 million for 1986 that was appropriated for further definition, and \$410 million for 1987 to complete definition and start hardware development. This approach is consistent with the traditional practice of NASA's receiving annual appropriations for long-term development projects with known future funding requirements that are established to support a planned development schedule. As noted above, the OMB staff work with agencies to develop the current

Appendix V  
Comments From the Office of Management  
and Budget

3

See comment 4.

services estimates based upon initial submissions provided to OMB as required by Circular A-11. Reference to OMB examiners' rationale as the basis for developing estimates is not appropriate.

See comment 5.

It should be further noted that payroll costs are adjusted for inflation in the current services estimates, although not at the account level. A pay raise equal to the average private sector pay increase is included in the allowances function, thus incorporating wage inflation. This is consistent with how pay is generally treated in the budget. The section on page 13 of the draft should note this calculation.

See comment 6.

The conclusions you state about congressional staff use of the Administration's current services estimates may not represent the actual use of the estimates by congressional staff. First, the sample size of the survey is only 16, not the 22 that you state. That one of these staff members happened to supervise seven others is immaterial. Second, no information is provided about how these 16 individuals were selected or if the sample was representative of all potential users of current services estimates. Lastly, no information is provided on what questions were asked of the staff members contacted or if the interviews were conducted in a consistent and unbiased manner. Unless GAO can document that the survey of 16 accurately represents the opinions of the population of all potential congressional users of current services estimates, we recommend that all reference to congressional staff users of current services be deleted.

We feel that current services estimates do provide useful information for congressional staff. It is to be expected that many of the staffers interviewed say they use CBO estimates since the CBO estimates are the basis for the resolution process. However, OMB and CBO use each other's baselines to determine where there are economic and technical differences between the two branches so that true policy differences between proposals can be determined. The current services estimates also allow CBO to more accurately understand and reestimate the President's budget request.

Sincerely,



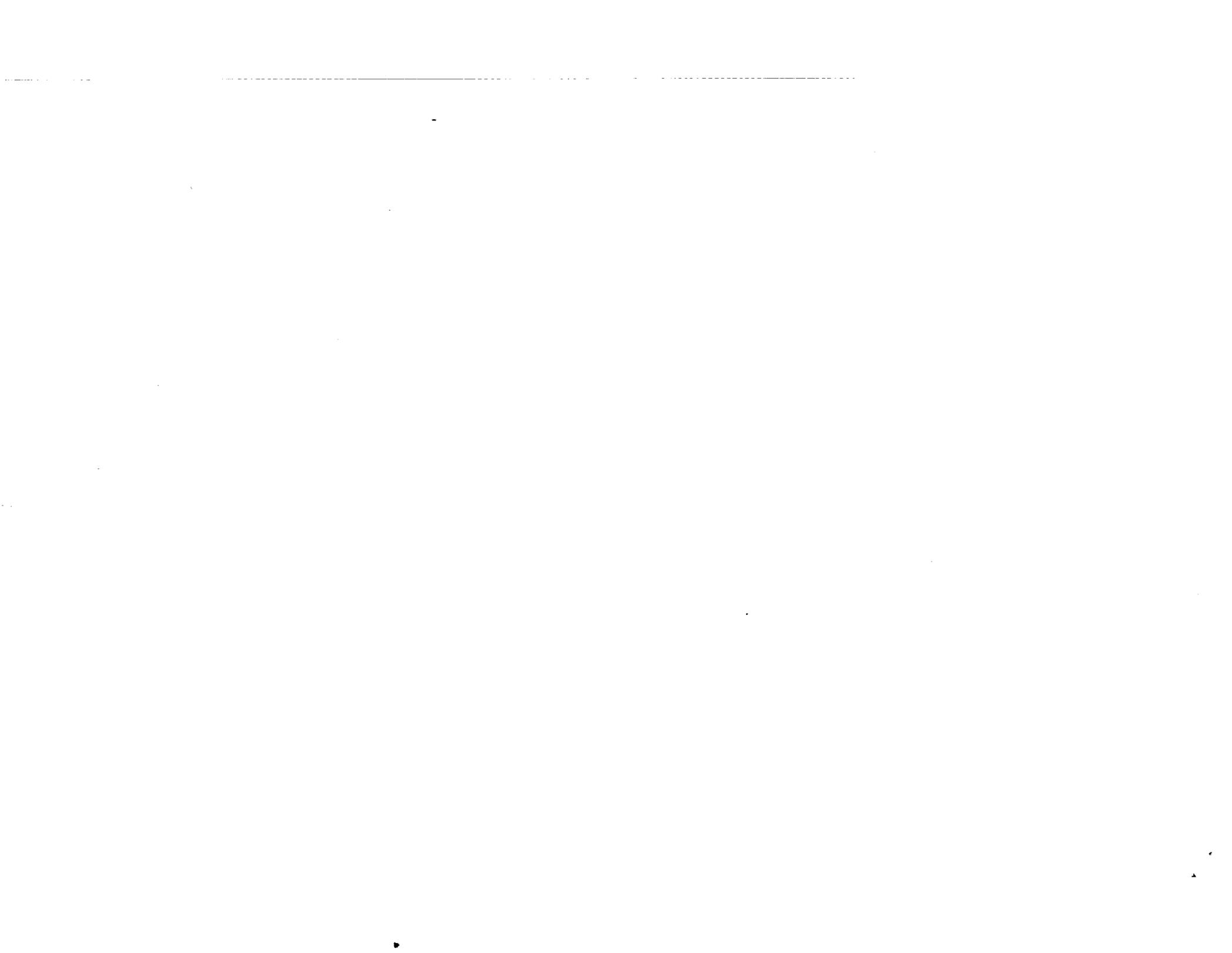
David G. Mathiasen  
Deputy Assistant Director  
for Budget Review

Enclosure

The following are GAO's comments on the Office of Management and Budget's letter dated September 5, 1986.

## GAO Comments

1. While we recognize that OMB has worked with congressional committees in the past to develop instructions for estimating current services, our report concentrated on current procedures and practices.
2. Report changed where appropriate. Discussed in agency comments section on pages 8-9.
3. Report changed where appropriate. OMB stated that estimates for the space station were based on circular A-11 guidance related to "major projects with programmed development schedules" and that our reference to OMB examiners' rationale as the basis for developing estimates is not appropriate. However, our reading of circular A-11 shows that it refers to an "approved construction, development, and/or procurement schedule" but that it does not state what constitutes approval. Individual budget examiners must judge when approval is given. Therefore, we believe discussion of the examiners' rationale is appropriate and shows the high degree of expertise required of OMB examiners to be able to make rational judgments. Our discussions regarding judgment are not meant as criticism of OMB budget examiners but are included primarily to explain how the current services estimates are developed.
4. Discussed in agency comments section on pages 8-9.
5. Report changed to include additional information on payroll estimates.
6. Report changed to clarify the selection of individuals interviewed. Discussed in agency comments section on pages 8-9.



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